

2012 Summary Report to Members

for the fiscal year ended June 30, 2012

Strength

PSRS/PEERS AND MISSOURI'S PUBLIC SCHOOLS

*A Strong Partnership
for Secure Retirement*



PUBLIC SCHOOL & EDUCATION EMPLOYEE
RETIREMENT SYSTEMS OF MISSOURI

TABLE OF CONTENTS

INTRODUCTION	3
A SNAPSHOT OF PSRS/PEERS MEMBERS	3
PSRS Active Member Profile	3
PEERS Active Member Profile	3
PSRS Total Membership	3
PEERS Total Membership	3
A STRONG PARTNERSHIP	4
RETIREMENT TRENDS	7
PSRS Members Retiring By Year	7
PEERS Members Retiring By Year	7
Total PSRS Benefits Paid Over Time	7
Total PEERS Benefits Paid Over Time	7
ABOUT OUR RETIREES	8
PSRS 2011-2012 School Year Retirees	8
PEERS 2011-2012 School Year Retirees	8
HOW PSRS/PEERS IS FUNDED	9
PSRS Pre-Funded Status	9
PEERS Pre-Funded Status	9
Funding Sources	9
THE IMPORTANCE OF DIVERSIFICATION	10
Total Fund Asset Allocation	10
INVESTMENT PERFORMANCE	11
Total Portfolio Returns	11
PSRS AND PEERS TOP 10 STOCK HOLDINGS AND THEIR MARKET VALUES	12
FINANCIAL STATEMENTS	13
Statements of Plan Net Assets	13
Statements of Changes in Plan Net Assets	13
SUMMARY/CONCLUSION	14

INTRODUCTION

A Strong Partnership for Secure Retirement. At the Public School Retirement System of Missouri (PSRS) and the Public Education Employee Retirement System of Missouri (PEERS), we work in partnership with our member school districts to deliver strong, stable and secure retirement benefits to our members. We are able to provide these benefits by applying the principles of leadership, innovation and outstanding member service. But our success also depends in large part on the strength and dedication of our partner employers, and our shared commitment to the retirement security of the more than 240,000 Missouri public school teachers and education employees we serve.

A SNAPSHOT OF PSRS/PEERS MEMBERS

The **strength** of our membership is a testament to the character of those who have spent their careers working in Missouri's public education system. The strength of our funding status, investment program and member services is a result of the hard work and commitment of the PSRS/PEERS Board of Trustees, management and staff. We are dedicated to maintaining our financial strength and providing the highest level of service and retirement security to our members for years to come.

PSRS Active Member Profile					
	2012	2011	2010	2009	2008
Average Age	42.2	42.3	42.3	42.2	42.2
Average Years of Service	11.4	11.5	11.3	11.1	11.1
Average Annual Salary	\$56,483	\$55,837	\$56,701	\$55,957	\$53,667

PEERS Active Member Profile					
	2012	2011	2010	2009	2008
Average Age	48.1	47.9	47.5	47.1	46.8
Average Years of Service	8.4	8.3	8.0	7.7	7.3
Average Annual Salary	\$29,571	\$28,984	\$28,467	\$27,667	\$27,082

PSRS Total Membership					
	2012	2011	2010	2009	2008
Active	77,529	77,708	79,256	79,335	78,436
Inactive	11,523	11,580	11,159	11,570	11,580
Retired	45,895	43,779	41,464	39,897	38,045
Disabled	803	763	721	696	691
Survivors	3,646	3,523	3,282	3,153	3,002
Total Membership	139,396	137,353	135,882	134,651	131,754

PEERS Total Membership					
	2012	2011	2010	2009	2008
Active	48,605	48,800	50,363	50,978	50,865
Inactive	14,552	15,402	15,355	16,538	16,623
Retired	20,537	19,444	18,274	17,461	16,696
Disabled	668	620	575	540	514
Survivors	1,357	1,264	1,222	1,150	1,078
Total Membership	85,719	85,530	85,789	86,667	85,776



PSRS/PEERS and Missouri's Public Schools – A Strong Partnership for Secure Retirement

The Public School and Education Employee Retirement Systems of Missouri (PSRS/PEERS) *work in partnership* with the member school districts of this state to provide eligible employees and their beneficiaries with a significant source of income based on the employee's length of service and compensation in order to enhance retirement, disability and death benefits received from other sources.

– From the PSRS/PEERS Mission Statement

At PSRS/PEERS, we don't work alone in our mission to provide members with financial security in retirement. We rely on the hard work and dedication of the many public school districts that employ those members.

These school districts truly are our partners in providing the best possible retirement benefits for PSRS/PEERS members. Not only do they contribute financially to the Retirement Systems on behalf of their employees' retirement, but they also provide the all-important payroll and employment data we need to pay retirement benefits accurately and on time.

The strength displayed by these school districts every day goes well beyond what they demonstrate through contributions to their employees' retirement security. It helps them to achieve great things for Missouri's students, families and communities.

In this report, we are proud to feature just a few stories of this strength. These are stories of districts that have faced extraordinary challenges, such as rebuilding after disaster, as well as accounts of districts that have adopted proactive and innovative ways to maintain growing facilities, and ensure the safety of students and staff.

We hope you are as inspired by their dedication, perseverance and achievement as we are.



Triumph Over Unthinkable Disaster

On Sunday evening, May 22, 2011, the evening of their high school graduation ceremony, Joplin was struck by an EF-5 tornado. The Joplin school district lost seven students and one staff member, with many others injured. The storm destroyed more than half the district's classroom space – six district buildings were demolished and four others damaged.

The district pledged to do everything in its power to help the community rise up after the incredible devastation, and to get their students back to school on time the following school year.

In a demonstration of amazing strength and dedication, and with unparalleled community support, they did just that. Students returned to school on time on August 17, 2011, attending class in temporary facilities set up in locations around the city.

The districts' ultimate goal is to raise funds, rebuild destroyed schools and return students to permanent facilities by August 2014, as well as to provide safe rooms for existing facilities.



Rising Up from the Ashes

The elementary school in the small central Missouri community of Latham was severely damaged by fire on December 15, 2010, just before the winter break. It was a strange twist of fate – the school had been built in the 1920's on the site of an even older schoolhouse that was also destroyed by fire.

The main school building was a total loss. But as they had in the past, the community rallied around the school. After the fire, the question was raised whether the small elementary school of around 60 students should take the opportunity to consolidate into the neighboring California, MO school district. The resounding answer was no. They would rebuild.

Students returned to school on time the following January 3, holding class and operating out of two local churches until March when mobile classrooms were put in place. Equipment and school supplies were donated by many in the local and surrounding communities.

Initially, the goal was to have the school rebuilt and in use by the beginning of the 2011-2012 school year, but negotiations with the district's insurance company delayed that goal. Their perseverance eventually paid off, and the district broke ground December 5, 2011 on a new building, which was completed and ready for students and staff at the start of the 2012-2013 school year.



A Shining Example

Each July, volunteers from the Independence area and beyond gather to put a shiny new face on five of the school district's buildings. They paint, clean and landscape. And they do it with a smile. All the work is done by volunteers, with local corporate sponsors, donated supplies and a lot of good old-fashioned hard work.

Since the annexation of seven schools from the Kansas City School District in 2008, about 1,000 volunteers come together each summer to celebrate the strength of their community and demonstrate dedication to their schools by joining the Project Shine Initiative.

Originally called Extreme School Makeover, the program began as a way to provide some much needed TLC to the schools new to the Independence district. Project Shine has been such a success that the work has continued each year since, with five district buildings receiving improvements each year. The Independence school district, which serves almost 15,000 students, includes 28 different buildings.

By providing students with a clean, bright and cheerful environment in which to learn, and providing staff with a better working environment, Project Shine is a textbook example of how the strength of a community can improve public schools.



Planning to Stay Safe

It is a given that schools today have plans for dealing with crisis or natural disaster. Thankfully, most have not had to put those plans into action.

Among those is the Rockwood School District, located in the St. Louis metro area. The fourth largest school district in Missouri, Rockwood serves more than 22,000 students and covers roughly 150 square miles. Their mission – “We do whatever it takes to ensure all students realize their potential” – is evident. The district includes 10 National Blue Ribbon Schools, 14 Missouri Gold Star Schools of Excellence, ranks among the top on Missouri Assessment Program (MAP) tests, and among the top in both state and national ACT scores.

But their “whatever it takes” attitude goes beyond academics. It is also evident in the district's strong commitment and high level of achievement in crisis planning and emergency preparedness to ensure the safety of students and staff.

The district and all school facilities have emergency preparedness, crisis and safety plans designed with the assistance of staff, local law enforcement, emergency management and public health officials. Plans are regularly reviewed, updated and practiced through drills. Workshops are held every two years to allow parents, emergency officials and district administrators to discuss crisis preparedness, prevention and response.

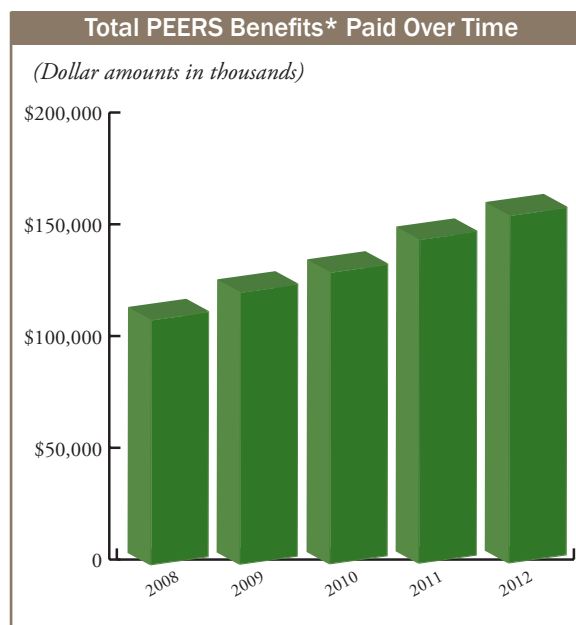
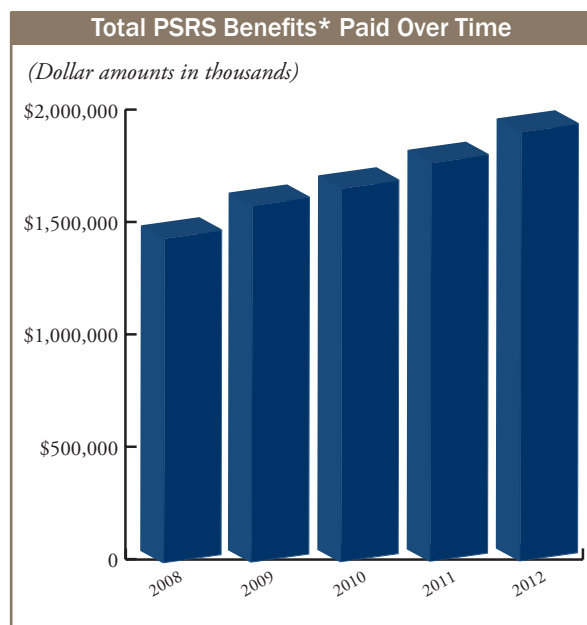
The strength of Rockwood's commitment to both academics and emergency preparedness goes a long way to achieving its goal of ensuring students have every opportunity to realize their potential.

RETIREMENT TRENDS

The total number of PSRS/PEERS retirees and amount of benefits paid each year continue to grow. In fiscal year 2012 (July 1, 2011 to June 30, 2012) we helped 4,777 individuals begin their retirement by providing them with PSRS/PEERS benefits.

PSRS Members Retiring By Year					
	2012	2011	2010	2009	2008
Number of Retirements	2,926	3,122	2,379	2,629	2,590
Average Age	58.7	58.6	58.6	58.0	57.9
Average Years of Service	23.7	23.8	23.3	25.1	24.5
Average Single Life Monthly Benefit	\$3,334	\$3,342	\$3,197	\$3,424	\$3,214

PEERS Members Retiring By Year					
	2012	2011	2010	2009	2008
Number of Retirements	1,714	1,656	1,400	1,325	1,245
Average Age	63.0	62.9	62.7	62.9	62.5
Average Years of Service	16.3	16.6	15.2	16.5	16.5
Average Single Life Monthly Benefit	\$748	\$752	\$630	\$694	\$667



*Annual benefits paid to service retirees, disability retirees, and survivors. Includes PLSO Payments.

ABOUT OUR RETIREES

We take great pride in the long-term **strength** and stability of the Systems, and the resulting security of the guaranteed lifetime retirement benefits we provide for our members.

Most PSRS/PEERS benefit recipients are service retirees. Lifetime service retirement benefits are payable to members who have met age and service requirements. Disability benefits are provided for members who are unable to earn a livelihood due to permanent disability and who have met eligibility criteria. The Systems also provide death benefits to qualified beneficiaries of deceased members.

PSRS 2011-2012 School Year Retirees

Years of Service at Retirement	Number of Retirees	Average Years of Service	Average Monthly Single Life Benefit*	Average Age at Retirement
5 - 9.9	248	6.5	\$ 607	61.7
10 - 14.9	265	12.3	\$ 1,261	61.3
15 - 19.9	293	17.2	\$ 1,995	61.9
20 - 24.9	531	22.4	\$ 2,980	60.3
25 - 29.9	723	27.1	\$ 3,824	55.9
30 - 34.9	767	31.7	\$ 4,893	56.8
35 - 39.9	81	36.6	\$ 6,071	60.5
40+	18	41.3	\$ 5,262	64.9
Overall Average		23.7	\$ 3,334	58.7

PEERS 2011-2012 School Year Retirees

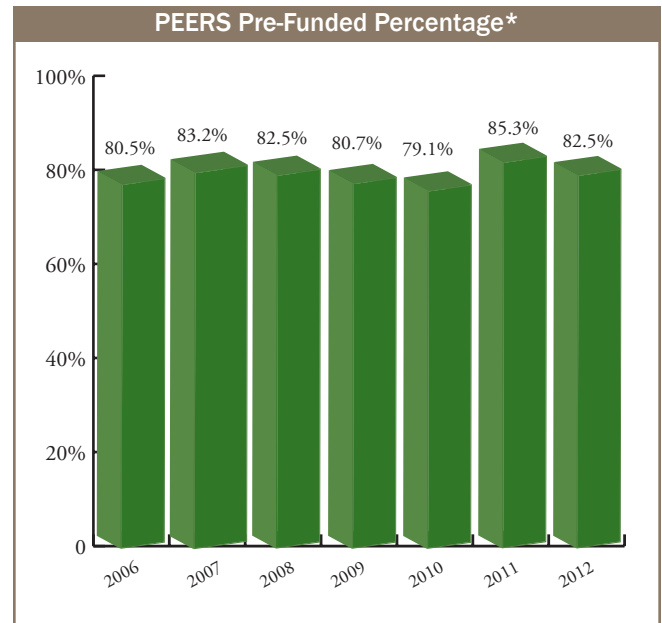
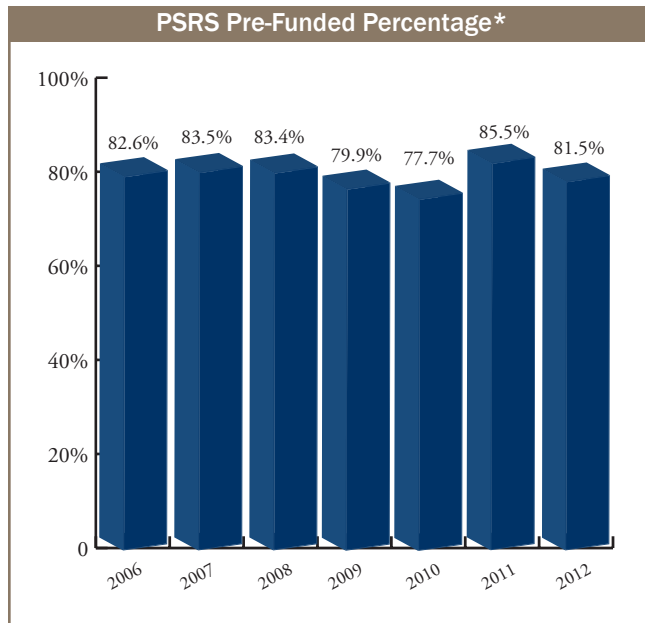
Years of Service at Retirement	Number of Retirees	Average Years of Service	Average Monthly Single Life Benefit*	Average Age at Retirement
5 - 9.9	516	7.1	\$ 227	64.1
10 - 14.9	371	12.2	\$ 433	63.9
15 - 19.9	246	17.2	\$ 705	63.3
20 - 24.9	250	22.4	\$ 1,063	62.0
25 - 29.9	184	26.7	\$ 1,508	60.7
30 - 34.9	107	31.7	\$ 1,888	59.2
35 - 39.9	31	36.6	\$ 2,176	62.1
40+	9	43.4	\$ 2,030	72.1
Overall Average		16.3	\$ 748	63.0

**The Single Life Plan pays the largest lifetime monthly retiree benefit. Actual amounts paid are lower due to benefit plan chosen by retiree.*

The average 2011-2012 Single Life monthly benefit for new PSRS retirees is \$3,334 and for PEERS retirees is \$748. How much will your benefit be? Use our online Benefit Estimate Calculator at www.psrs-peers.org to estimate your own monthly retirement benefit amount.

HOW PSRS/PEERS IS FUNDED

How do we determine how well funded the Systems are? By comparing the value of assets to the amount of benefit promises made to members. This comparison shows the pre-funded status of the Systems, or in other words, the plan's ability to pay projected benefits with today's dollars. As of June 30, 2012, PSRS was 81.5% pre-funded, and PEERS was 82.5% pre-funded. The Systems' pre-funded levels are an indication of our **strength** as one of the leading retirement systems in the United States.



*Actuarial value of assets as a percentage of actuarial accrued liabilities

Funding Sources

The investment portfolios of PSRS and PEERS represent all contributions to the plans, from members and their employers, as well as all net earnings on these assets. These funds are held in support of both current and future liabilities. In total, approximately 60¢ of every dollar used to pay retirees is generated from investment earnings.

20-Year Average



Note: The 21¢ includes member contributions and service purchases.

THE IMPORTANCE OF DIVERSIFICATION

The Systems' portfolio is prudently invested across a broad array of assets employing a long-term time horizon that reflects the long-term nature of the PSRS/PEERS pension obligations.

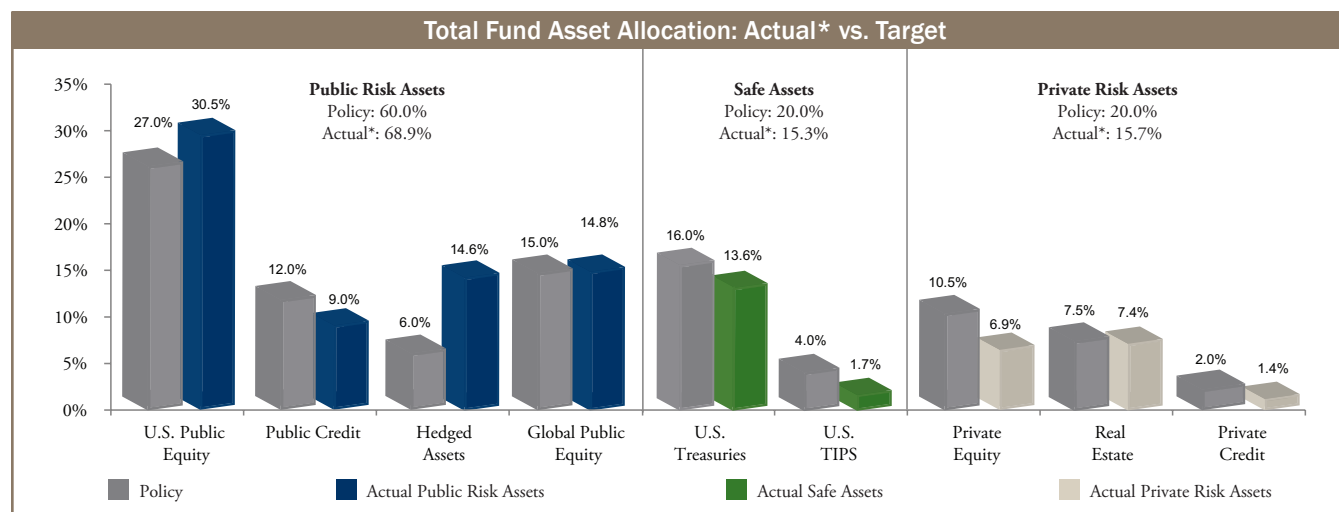
The asset allocation decision is generally regarded as the most important decision in the investment management process, since it is crucial to achieving long-term objectives established by the Board of Trustees. Within that asset allocation, it has always been important to not only consider the expected investment return, but also to understand the risks. The importance of risk consideration has never been as significant as in the current global market environment.

PSRS/PEERS employs an effective and intuitive risk-based approach to setting and reporting the asset allocation. The risk-based asset allocation was developed to clearly define the prudent risks taken by the Systems within their investment portfolios. The Systems consider a variety of risks including but not limited to liquidity risk, volatility, event risk (the possibility that an investment will move much more than expected) and the ability to meet the Systems' assumed rate of return when structuring the portfolio.

The Systems' asset allocation includes Public Risk Assets, Safe Assets and Private Risk Assets. Within each risk allocation, the Systems' investment portfolio includes strategic, long-term commitments to specific asset programs. Public Risk Assets include U.S. Public Equity, Global Public Equity, Public Credit and Hedged Assets. Safe Assets include U.S. Treasuries and U.S. TIPS. Private Risk Assets include Private Real Estate, Private Equity and Private Credit Assets.

The Systems' internal investment staff and external consultants continuously monitor the asset allocation and risk and return characteristics of the portfolio. The Systems' long-term asset allocation is reviewed regularly in conjunction with plan liabilities.

The Systems' asset allocation as of June 30, 2012, was as follows:



*Actual assets include 0.1% invested in cash and cash equivalents and securities lending collateral that is not reflected in the chart above.

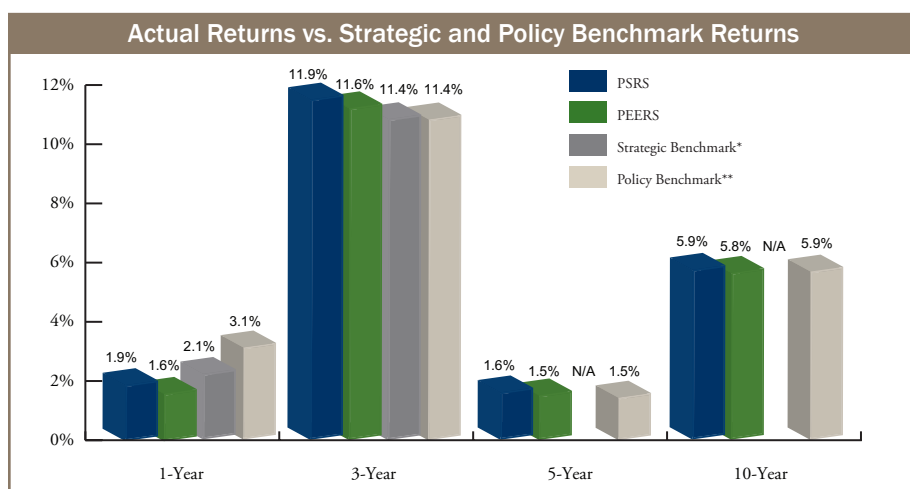
INVESTMENT PERFORMANCE

The objective of the internal investment staff is to produce consistent and **stable** investment returns over long periods of time that exceed the actuarial assumed rate of return of 8%. We have been successful in achieving that goal over the last 20 years because PSRS/PEERS has an experienced investment staff and a **strong**, flexible investment policy and process that allow our investment staff to respond quickly to market changes.

PSRS/PEERS net assets were \$30.8 billion on June 30, 2012, making the combined entity larger than all other public retirement plans in Missouri combined, and the 45th largest defined benefit plan in the United States. There has been consistent and long-term growth in assets since the inception of PSRS in 1946 and PEERS in 1965.

Total Portfolio Returns

The Board has established a long-term goal to achieve a total investment return of at least 8.0% per year and a real rate of return of at least 5.5% per year. The investment returns of the last two fiscal years reflect the volatility and complexity in global markets. The PSRS and PEERS total investment returns for the current fiscal year are 1.9% and 1.6%, respectively, compared to the prior fiscal year returns of 21.8% for PSRS and 21.4% for PEERS. The global markets bottomed during the severe credit crisis of the late 2000's in March 2009. In the three-year time period since the global equity crisis, investment earnings have exceeded \$8.7 billion with three-year returns significantly exceeding our long-term investment objective. Additionally, the 25-year annualized total returns of 8.2% for PSRS and 8.1% for PEERS exceed the long-term return objective of 8.0%.



*As of June 30, 2012: 42.9% Russell 3000 Index, 15.8% MSCI All Country World ex-U.S. Free Index, 16.5% Barclays Capital Credit Intermediate Index, 14.3% Barclays Capital Treasury Blend, 7.4% NCREIF Property Index, 1.7% Barclays Capital U.S. TIPS 1-10 Year Index, and 1.4% Bank of America Merrill Lynch High Yield Master II Index. Strategic Benchmark data is not available for periods dating back five years or more.

**As of June 30, 2012: 40.5% Russell 3000 Index, 16% Barclays Capital Treasury Blend, 15% MSCI All Country World ex-U.S. Free Index, 15% Barclays Capital Intermediate Credit Index, 7.5% NCREIF Property Index, 4% Barclays Capital U.S. TIPS 1-10 Year Index, and 2% Bank of America Merrill Lynch High Yield Master II Index.

PSRS AND PEERS TOP 10 STOCK HOLDINGS AND THEIR MARKET VALUES

PSRS/PEERS' has constructed a well-diversified asset mix for the Systems. Because of that diversification, even our largest holding of any one stock represents only a small percentage of the total portfolio.

PSRS	
Top 10 Largest Holdings* June 30, 2012	Market Value
Apple, Inc.	\$ 77,954,072
Exxon Mobil Corp.	59,454,036
Chevron Corp.	53,809,747
JP Morgan Chase and Co.	53,040,613
Pfizer Inc Com.	42,910,318
Philip Morris International Inc.	41,667,348
Amgen Inc.	40,852,952
Lorillard Inc.	37,627,918
Wells Fargo & Co.	35,999,799
Microsoft Corp.	35,019,646
TOTAL	\$478,336,449

PEERS	
Top 10 Largest Holdings* June 30, 2012	Market Value
Apple, Inc.	\$ 7,483,376
Exxon Mobil Corp.	5,561,365
JP Morgan Chase and Co.	5,242,734
Chevron Corp.	4,837,491
Amgen Inc.	4,367,426
Philip Morris International Inc.	4,239,091
Pfizer Inc Com.	4,231,103
Lorillard Inc.	3,750,415
CVS Caremark Corp	3,501,526
Wells Fargo & Co.	3,322,899
TOTAL	\$46,537,426

*Additional investment portfolio information is included in the 2012 Comprehensive Annual Financial Report.

FINANCIAL STATEMENTS

The Statements of Plan Net Assets present information on the assets and liabilities of the Systems, with the difference between the two reported as net assets. The net assets of the Systems reflect the resources available to pay benefits to members when due. Over time, increases and decreases in net assets measure whether the Systems' financial position is improving or deteriorating.

Statements of Plan Net Assets				
<i>(As of June 30, 2012 with comparative totals for June 30, 2011)</i>				
	PSRS	PEERS	Combined Totals	
			June 30, 2012	June 30, 2011
ASSETS				
Cash	\$ 90,553,538	\$ 13,481,385	\$ 104,034,923	\$ 80,263,667
Receivables	1,862,704,970	184,893,569	2,047,598,539	2,384,004,064
Investments, at fair value	30,401,626,436	3,255,560,165	33,657,186,601	32,948,136,320
Invested securities lending collateral	523,668,569	48,893,553	572,562,122	993,516,994
Prepaid expenses	125,353	-	125,353	772,708
Capital assets, net of accumulated depreciation	17,391,291	-	17,391,271	14,765,165
TOTAL ASSETS	32,896,070,137	3,502,828,672	36,398,898,809	36,421,458,918
LIABILITIES	5,079,297,576	538,271,635	5,617,569,211	5,402,513,804
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 27,816,772,561	\$ 2,964,557,037	\$ 30,781,329,598	\$ 31,018,945,114

The Statements of Changes in Plan Net Assets show the incoming revenue (additions) and outgoing expenses (deductions) of the Systems throughout the fiscal year.

Statements of Changes in Plan Net Assets				
<i>(For the year ended June 30, 2012 with comparative totals for the year ended June 30, 2011)</i>				
	PSRS	PEERS	Combined Totals Year Ended	
			June 30, 2012	June 30, 2011
ADDITIONS				
Employer contributions	\$ 620,214,231	\$ 95,094,785	\$ 715,309,016	\$ 685,548,292
Member contributions	658,935,738	101,930,717	760,866,455	734,148,848
Net investment income	449,821,510	39,773,794	489,595,304	5,521,452,120
Other income	441,034	-	441,034	930,065
TOTAL ADDITIONS	1,729,412,513	236,799,296	1,966,211,809	6,942,079,325
DEDUCTIONS				
Monthly benefits	1,950,231,251	166,945,359	2,117,176,610	1,996,388,891
Refunds of contributions	54,456,051	18,469,530	72,925,581	72,461,629
Administrative expenses	8,133,833	5,590,986	13,724,819	14,443,612
Other expenses	315	-	315	6,179
TOTAL DEDUCTIONS	2,012,821,450	191,005,875	2,203,827,325	2,083,300,311
NET INCREASE	(283,408,937)	45,793,421	(237,615,516)	4,858,779,014
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
Beginning of year	28,100,181,498	2,918,763,616	31,018,945,114	26,160,166,100
End of year	\$ 27,816,772,561	\$ 2,964,557,037	\$ 30,781,329,598	\$ 31,018,945,114

SUMMARY/CONCLUSION

PSRS/PEERS and Missouri's Public Schools - A Strong Partnership for Secure Retirement

The PSRS/PEERS Board of Trustees, management team and staff are proud to partner with the public school districts of this state to provide **strong**, stable and secure retirement benefits for Missouri's public school educators and employees.

We are committed to our ongoing goal of providing superior retirement benefits now, and in the future through quality plan design, professional management, superior investment performance and our commitment to member service.

2012 Summary Report to Members
for the fiscal year ended June 30, 2012

PSRS/PEERS is pleased to present the **2012 Summary Report** to Members for the fiscal year ended June 30, 2012. This report highlights information from our most recent **Comprehensive Annual Financial Report**. Printed copies of the comprehensive report are available upon request, or may be viewed online at www.psrs-peers.org.

Strength

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PUBLIC SCHOOL & EDUCATION EMPLOYEE
RETIREMENT SYSTEMS OF MISSOURI